

Social Auditors: Illegitimate Offspring of the Audit Family?

Finding Legitimacy through a Hybrid Approach

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This paper explores recent developments in social auditing in Australia and considers what the future might hold for this emerging area of practice. The authors reflect on their own social audit experience with two organisations that are using social auditing to improve their corporate social responsibility performance. They consider inherent tensions of working with a 'hybrid' approach to social auditing that combines a subjective/narrative evidence base with the need for objective verifiable data. The aim of the article is to open up discussion about the legitimate place of social science thinking and research in the sustainability and social assurance process to ensure that social auditing continues to provide value to both corporate management and internal and external stakeholders. The authors encourage other social auditors to share their experiences.

- Social auditing
- Corporate social responsibility
- Sustainability
- Social science
- Stakeholders
- Management

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Authors' note

WE AIM TO OPEN UP DISCUSSION ABOUT THE LEGITIMATE PLACE OF SOCIAL SCIENCE thinking and research in the sustainability and social assurance process, with a particular focus on social auditing. We recognise that this is a contested field of thinking and practice. There is limited agreement as to the meaning and definition of these and associated terms. Yet we, like other practitioners, continue to undertake sustainability and social assurance assignments. We evolve and challenge our own 'working' definitions, negotiate the scope of assignments with client organisations and key stakeholders, and reflect on the efficacy of our work, all against a background of an evolving, complex and diverse literature.

This paper is written from a practitioner perspective, and is therefore influenced by practicalities and the everyday politics of our assignments. As a result this contribution may appear narrow. However, we believe that practitioner perspectives are not captured often enough in academic and broader debates about corporate social responsibility and sustainable development, and we seek to contribute in this respect, hoping others will follow.

Our approach also means we have not referenced the usual array of literature. Instead, we have privileged our own experiences and thinking and referenced where directly relevant, rather than the reverse. Despite this unconventionality, we hope academics, organisations, their stakeholders and others will identify with, discuss, challenge and perhaps disagree with our perspective, as we might do given the opportunity for more multidisciplinary discussion and debate.

Australian developments in social auditing

Sustainability reporting and auditing

Sustainability reporting is one of the main organisational accountability mechanisms that utilises the skills and experience of social auditors. In Australia sustainability reporting and social auditing has burgeoned. The Australian government's Department of the Environment and Heritage-sponsored report *The State of Sustainability Reporting in Australia 2004* found that the number of identified sustainability reports was substantially greater than in 2003. The study identified 116 sustainability reports and noted a trend towards sustainability reports rather than environment-only reports. Of these, the report noted that only 32 had, or were intending to have, their report independently verified.

The annual Association of Chartered Certified Accountants (ACCA) Australia and New Zealand Awards for Sustainability Reporting saw an increase from 28 entries in 2003 to 33 in 2004, most of which were subject to third-party verification and/or assurance. However, while the quantity of reports has increased, there has not been a corresponding increase in quality of assurance. ACCA judges concluded that the 2004 entries 'lacked innovation' and were too often being limited to a simple 'tick the box exercise' (ACCA 2004: 11). This suggests social auditing in relation to sustainability reporting in Australia is unnecessarily narrow. We suggest that greater utilisation of contemporary social science research methodologies offers potential for flexibility and room for creativity in sustainability and social assurance.

We are not suggesting that financial accounting-based approaches to auditing be disregarded, which would be disingenuous given that social auditing grew from this approach (Owen *et al.* 2000). Rather, financial accounting-based approaches should not

be at the expense of enabling other approaches to social auditing. However, we do suggest that greater incorporation of contemporary social science methodologies might help to alleviate concerns that third-party assurance is taking a 'managerial turn' (Ball *et al.* 2000: 13), where assurance providers become too internally focused, rather than also focusing on stakeholders (Zadek *et al.* 2004).

Academics such as Eva Cox initiated the recent wave¹ of social auditing in Australia. Cox and the Reichstein Foundation (2002) authored the first Australian 'how to' publication of social auditing, *The Social Audit Cookbook: Recipes for Auditing the Way We Connect*. Written for the community sector, she observes that social auditors offer 'new ways' of assessment and explore 'harder to measure' aspects of social connections (Cox and the Reichstein Foundation 2002: 4). The Cox approach to social auditing is informed by social science thinking, as it relies largely on qualitative methods, such as survey-based research to measure stakeholder perceptions about key aspects of their relationship with the audited organisation.

Marcelle Holdaway is another social auditor working with community-based organisations in Australia. She has helped a range of organisations, including Maleny Credit Union, Bundaberg Skills Centre and Mission Australia Queensland, in applying social accounting and auditing techniques. Maleny Credit Union (MCU) produced one of Australia's first social audit reports which relied on stakeholder perceptions as well descriptive data from focus groups (MCU 2001). The MCU's social and environmental reports have since then included independent verifiers' reports.

A significant body of social auditing work is also being undertaken by large accounting, environmental and/or engineering firms. This work primarily involves verifying and/or assuring sustainability reporting. This style of auditing appears more aligned with the traditional financial accounting-based approach. Some of these firms are, to varying degrees, increasingly incorporating social science-based thinking in what we refer to as a 'hybrid' approach to social auditing. As well as focusing on stakeholders, the hybrid approach also goes some way to alleviating concerns that the financial accounting-based approach takes a narrow interpretation of 'risk' in terms of direct short-term financial consequences rather than a broader interpretation in line with the longer-term goals of sustainable development (Zadek *et al.* 2004). One of the most active firms in this area in Australia is URS, which during 2004 conducted more than eight assignments that involved assuring and/or verifying sustainability reports that included a significant amount of social information.

All three approaches—that is, social science, traditional financial accounting and the hybrid approach—are in demand. More recently, we find clients seeking the hybrid approach. While all three approaches are challenging in their own right, it is the tensions inherent in the hybrid approach that we wish to explore and debate.

Indices, certification and self-regulation

Sustainability reporting is not the only place in which social auditing is utilised. During the last three years corporate Australia has been the focus of three separate indices, each with their own methodologies and processes of verification, including: The Good Reputation Index, which uses community-based organisations and other representative bodies to assess companies; CorpRate, which is conducted by three large NGOs (non-governmental organisations) using internal analysts to assess companies; and the St

¹ As highlighted by Johnson (2001), the notion of social auditing in the United States first emerged from the social activism of the 1960s and 1970s, but did not embed itself in the business sector until the 1990s. See also Swift and Prichard 2000 for an explanation of the resurgence of social auditing in the UK during the same period.

James Ethics Centre's Corporate Responsibility Index, which commissions Ernst & Young to verify self-assessment questionnaires.

The other accountability mechanism that uses social auditing in Australia is certification. The Forest and Marine Stewardship Council certifications both use social audit techniques. It is noteworthy that the NGO that initiated these approaches, WWF, has facilitated a trial certification programme for the minerals industry called the Minerals Certification Evaluation Program (MCEP), which involved social auditors. Within the mining industry, many companies are implementing self-regulation systems. Newmont Mining uses independent external social auditors in its Five Star Assessment process, as discussed below.

Other social auditing-type activities include the SA8000 labour standard code (SAI 2004), BHP Billiton's Cannington mine in north-west Queensland being audited against this standard (BHP Billiton 2004).

Social auditors in Australia

Despite the utilisation and interest in social auditing in Australia, it is difficult for practitioners from a social science background to position themselves as 'professional' auditors compared with financial auditors and those from other disciplines, such as quality, environment and safety, with established mechanisms for auditing, certification and/or accreditation. Some social auditors pursue certification and/or accreditation in other disciplines in order to present themselves as 'accredited' even though that accreditation may not be directly relevant to social auditing.

While there has been some activity to establish a professional body for social auditors in Australia, as yet no one represents or accredits social auditors. The UK has AccountAbility (formerly the Institute of Social and Ethical AccountAbility [ISEA]) and the USA has Social Accountability International (SAI 2004), each offering its own approach to accrediting social auditors against different standards for different purposes. November 2004 saw ISEA and International Register of Certified Auditors (IRCA) jointly launch a new Certified Sustainability Assurance Practitioners process. In France l'Institut de l'Audit Social also has an accreditation process (IAS 2004) as does the Scottish-based Social Auditors Network (SAN 2004), the latter focusing on social accounting and auditing in the community sector. In Australia, the Social and Ethical Auditing Institute was founded in 1999, perhaps before its time. In 2004 it was revitalised and renamed the Australian Institute of Social and Ethical Accountability,² although it is still unclear whether the resurrected body will find more fertile ground than its predecessor.

Despite a lack of 'professionalisation', the development of social auditing in Australia continues. For example: AccountAbility in the UK conducted a consultation on the draft AA1000 Assurance Standard in 2002; the Global Reporting Initiative held a consultation with a break-out workshop on assurance provision in early 2004; and the Association of Chartered Certified Accountants' Sustainability Reporting Awards have been mentioned above. In the general area of assurance, Standards Australia released a draft for-comment document: *General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports* (SA 2004). There has also been some research into sustainability assurance in Australia. For example, CPA Australia released its report *Triple Bottom Line: A Study of Assurance Statements Worldwide* in February 2004 (CPA 2004). This study benchmarks the practice of sustainability assurance provision in Australia against practice elsewhere.

² www.accountability.org.au

Two case studies in social auditing

The following brief description of social auditing of Newmont and Westpac is presented from our experience working as social auditors.

Voluntary self-regulation in Newmont Mining

In early 2003 Newmont became the world's largest gold mining company when it purchased Australia's largest gold miner, Normandy. In the years before the Newmont takeover, Normandy created its Five Star assessment process, a voluntary self-regulation process to assess the robustness of site management systems and 'on the ground' performance of community relations, environment and health and safety systems, against a corporate set of standards. The system was originally developed in 1998 for environment, and tested in Western Australia. It was intended to replace an ineffective internal audit system and act as a driver for performance improvement. It was successful enough to serve as the model to expand into community relations and health and safety. Newmont has now implemented the approach throughout its global operations.

The assessment criteria for community and external relations standards are based on a five star rating system across three dimensions: management systems, performance and, significantly, perceptions. The company considers the star scoring system a quantitative output for both internal benchmarking and external reporting. The scoring system also enables comparative benchmarking between operations and setting of performance targets. Results are increasingly taken into account in assessing individual performance of site-based general managers and others such as discipline managers.

The company deliberately chose external auditors³ for the Five Star assessment process to provide greater credibility at the operation level, and with local and NGO stakeholders. Newmont has its own set of guiding criteria for selecting social auditors, including: tertiary qualifications in the social sciences, grass-roots experience in community work, some exposure to the extractive industries, ISO 14001 or 9000 training, AccountAbility accreditation and excellent communication skills. In a recent presentation to the US-based Auditing Roundtable, Dr Helen Macdonald, Newmont's Director, Community Relations and Social Development stated:

The experience and skills we require in our auditors is unique because they do more than assess. It is not just important that they understand and can assess management systems they also need to be community relations experts. This is critical because they also play an important part in educating our operations through the Five Star process (Macdonald 2003: 8).

Newmont is not the only company to have developed a self-regulatory mechanism for assessing sustainability performance. For example, BHP Billiton has developed a similar self-regulatory assessment system through its Health, Safety, Environment and Community (HSEC) Standards, Guidelines and Internal Audit Protocol. However, Newmont's approach remains uniquely innovative because of its use of external social auditors for the discipline-specific aspects, rather than utilising an internal audit team.

Social impact reporting at Westpac

For one of Australia's largest banks, Westpac, we have both conducted verification of the social sections of the company's Social Impact Reports for 2002 and 2003.

³ Both authors are Five Star Assessors for Newmont.

Westpac subsequently commissioned us to conduct a full scope application of the AA1000 Assurance Standard on its 2004 Social Impact Report and selected sustainability processes and systems. While the standard's release in March 2003 is a relatively recent development, Westpac's application of AA1000 Assurance Standard was not the first in Australia. We applied the AA1000 Assurance Standard to the 2004 report sections that reported on governance, employees, customers, human rights, suppliers and economic impacts. While our approach with Westpac for the first two years largely used traditional financial accounting-based auditing methodologies, we also used other methods to test completeness of the data and assumptions used in formulating it.

A full application of the AA1000 Assurance Standard led us to consult external stakeholders in a way that invited them to provide their perceptions and views of Westpac's issues and impacts, which resulted in a stakeholder-guided approach to the assurance assignment. In previous years we only used them to verify facts or figures. We also used other sources, such as selected policy documents, corporate responsibility commitments, publicly available information relating to Westpac and material produced by Westpac's peers to develop an 'issue register'. Once the 'issue register' was complete, we tested the organisation for each issue against the principles of materiality, completeness and responsiveness. Our investigation involved a range of data sources. As well as external stakeholders, this included Westpac personnel and a plethora of documents/records including: discussion papers, strategy documents, board papers, memoranda and minutes, management committee minutes, department and personal objectives, staff perspective survey results, internal audit reports, project and programme evaluations, external consultant reports, risk registers, externally and internally delivered speeches, submissions to parliament, and internal and external communications including emails and letters, intranet and Internet. We used NVivo™ qualitative research software, which allowed us to effectively code and organise the considerable evidence base against the three core principles of materiality, completeness and responsiveness.

Our approach relied on our social research skills and experience to collect 'narratives' from both internal and external stakeholders, while at the same time applying traditional financial accounting-based auditing methodologies employed in the previous two years.

Emma Herd, Westpac's Senior Adviser Corporate Responsibility and Sustainability stated:

The verification approach was useful for raising awareness of the sustainability agenda, as well as checking data and claims, but the assurance approach does more as it actually challenges the assumptions of people responsible for compiling the report.⁴

Towards a hybrid approach to social auditing?

Auditing, assuring, verifying and/or accounting for social performance in corporate Australia is generating increasing interest. As social auditors, we listen to diverse stories and 'narratives' as part of our work. Thus, it seemed natural to share our story in relation to the two organisations above. We encourage other social auditors to do the same so that we may start to develop a community of practitioners engaged in reflection and discussion about the work we do.

In undertaking this work, we continually reflect on definitions of the 'social audit', including: the processes and methods we use, the way we communicate our findings, and the difference our work makes to our client organisations, their stakeholders and the broader community. We are conscious of suspicions that social auditing is just a

4 Herd, personal email, 9 July 2004.

corporate public relations exercise (Kellaway 2000), and do not wish to be the subjects of 'corporate capture' or to see our work used as 'corporate spin'. We will continue to undertake social audit work where it enables us to 'make a difference'. Idealistic perhaps, but from our experience many social auditors come from activist backgrounds, either traditional, or in the sense of being champions of sustainability inside organisations, committed to contributing to a larger agenda for positive change. Interestingly, a significant aspect of our work is its potential for encouraging internal change by empowering these internal champions. Currently, we both maintain active links to NGOs and academia to ground our work somewhere other than purely in the corporate sector.

While we often reflect at an abstract level, we also seek practical guidance. Unfortunately, academic literature does not always illuminate social auditing from a practical perspective. For example, Johnson provides the following definition: 'a social audit is a standard process for identifying, measuring, and reporting the ethical, social and environmental impact of an organisation' (Johnson 2001: 30). He suggests that this definition is broad enough to cover both general and specific audit processes. However, from our perspective, such a 'broad yet narrow' definition does not help us conceptualise our work in an applied sense. Nor does it incorporate concepts of evidence, assurance or independence. We also know there is no such 'standard' process for sustainability assurance or social auditing (Zadek *et al.* 2004). The notion of standardisation appears, to us, to emerge from established understandings of the 'audit' within the financial/accounting sector, which offer us little in terms of identifying or understanding the social science aspects of our experiences as social auditors.

O'Dwyer (2001) illuminates the tensions held within what we refer to as the hybrid approach to social auditing. He cautions against the unquestioned entry of accountants into the realm of social accounting, auditing and reporting. He maintains that, while such professionals offer technical skills for a social audit focused on the concerns of corporate management, they do not automatically possess skills that enable them to incorporate the views and values of stakeholders. He argues that a specific set of skills is required to cope with soft, intangible and qualitative aspects of the data. Swift and Dando (2002) support O'Dwyer's assertions, suggesting that the technical competences of assurance providers are part of the first element of the assurance expectations gap.

Others take a more radical view. Shah (2004) asserts that financial auditors have built their legitimacy on the concept of scientific objectivity. He suggests that scientists and auditors offer a particular set of facts as being value-free through the denial of individual subjectivity. He challenges the notion of objectivity, positioning it as a social construct that has no place in social auditing. He draws on Gergen (1999) to assert that if we accept 'truth' as constructed in social relations it is therefore rendered subjective. Shah suggests that attaining value-free truth is unhelpful, and potentially impossible, and that social inquiry based on universal truth claims by objective scientists and auditors is simply political, power-serving and oppressive. Shah goes on to propose that social auditors need to adopt an approach that he terms 'critical subjectivity'. In terms of the social enquiry aspects of our work as social auditors we see value in this concept. However, our experience suggests that there exists a *possibility* to apply the two approaches in practice, while recognising the inherent tensions between them. We are third parties invited to collect and examine evidence, and come to a view. It is in formulating this view that we acknowledge that 'true' objectivity is an impossible goal. This is in contrast to the financial accounting-based approach, which is premised on the notion of 'truth', alongside 'fairness'.

Accountants and our environmental audit colleagues maintain that they have a legitimate place in social auditing. We do not disagree. But we stress the need to incorporate social science methodologies, just as we have incorporated their methodologies into our work when operating within the construct of the social 'audit'. We challenge traditional

auditors to reflect on the inherent contradictions that come with a hybrid approach to social auditing that combines subjective and objective data. We also believe social and community professionals should be actively encouraged to enter the auditing arena, acknowledging the current difficulties of gaining accreditation as a social auditor. To us, there is no either/or, as both perspectives are important and have a place. It is more a case of developing the hybrid approach, thus retaining the ability for social auditing to respond to the concerns of not only the organisation but also stakeholders. In effect, we see social auditors occupying a contested space at the intersection of social science and traditional auditing—a space that seeks to meld two apparently contradictory approaches.

Some key tensions of the hybrid approach

We have found significant tensions in working with a hybrid approach to social auditing. In the following section we briefly illuminate some of them, and encourage other social auditors to share their experiences, so we may learn from one another. We believe sharing knowledge will assist the hybrid approach in becoming a 'legitimate' member of the audit family. By way of example, we have made a detailed methodology of our Westpac social audit publicly available, so that it may be critiqued, appraised and reviewed. This will enable others to understand our approach, and build on it. It will also enable us to improve our work into the future.

One of the key tensions of our social auditing work is that, in many respects, we stand primarily on financial/accounting 'ground', rather than in a recognised and valued hybrid 'space'. This can be challenging for people we interview, as well as ourselves. For example, we received comments from Westpac personnel that they did not expect a line of questioning about values, motivations and perceptions; rather, they expected us to request evidence for verification purposes. Adams and Evans⁵ illuminate a similar tension and see an 'audit expectation gap' (Adams and Evans 2004: 97), arising from an over-emphasis on testing quantitative performance data at the expense of testing a sustainability report's completeness and credibility, which they argue should be addressed with greater stakeholder involvement. We agree and would encourage greater debate on the nature of that involvement, particularly as it manifests in the interaction between the internal and external stakeholders and the social auditor. Presenting as 'auditors', we are often challenged on the legitimacy of broader value-based questions. As well as justifying our position, much of our time is spent educating informants about the social auditing process itself.

There is also a tension in terms of finding the right balance between coverage of transactional and conceptual issues. For example, during our most recent assurance of Westpac we verified the data chart for institutional lending with a high social benefit to ensure that the figures were correct. This process was transactional, detail-oriented and time-consuming, but fairly straightforward. At the same time we needed to challenge the assumptions behind the definition of 'high social benefit'. There was much discussion and debate around this issue. We offered a view, and the organisation responded with its view. In this sense, hybrid social auditors must be capable of taking a 'position', using their judgement, while still immersed in the detail of an audit. We often need to challenge corporate assumptions, disrupting rather than accepting the status quo. In this sense, we work with many different filters, from 'micro', in order to pick up the detail needed to verify data, to 'macro', to view broader issues, both conceptually and reflexively.

5 Richard Evans provided the assurance for The Co-operative Bank in the UK.

There are also personal tensions in this work. We are often confronted with criticism from stakeholders of being in the pay of the company, or from NGOs as 'selling out'. We acknowledge that some of our corporate clients believe our links with organisations outside the corporate sector are beneficial. For example, Newmont considers our links with the NGOs to be helpful in that we:

act like a 'bridge' between the two sectors, not working in either, but working between them . . . NGO links enable them to maintain a focus on issues that are grounded in a way of thinking that is outside the world of business. Yet their business backgrounds enable them to draw on this, without losing sight of what is useful to corporates . . . by maintaining links with NGOs, and consulting/volunteering for them, it adds to their 'independence' and integrity as assessors (Macdonald 2003: 10).

Adams and Evans (2004) suggest a 'radical' change, which might alleviate concerns that social auditors are 'selling out' to corporations. They suggest corporate governance systems could give stakeholders more power on particular issues, such as appointment of auditors and determination of the audit scope. This current 'in between' space—that is, between the corporate world and external stakeholders and also in between the social sciences and traditional auditing—can only find solid ground with creative thinking and open debate about such ideas.

Our work with Newmont presents an interesting variation on the notion of auditing. The Five Star assessment process is in fact an assessment that looks to achieve breadth of investigation, rather than an audit that usually requires depth; that is, while we achieve a lower level of assurance, we cover a broad range of areas in the time available. Despite this, we present and are introduced as social auditors. When looking to establish a rapport with informants so we may understand the degree to which they have embedded particular values, the label of 'auditor' is a challenge. Conversely, at other times we accept and use the auditor label because it does reinforce our independence from the organisation, particularly when interacting with external stakeholders. We believe social auditors should be comfortable working with such different identities, and at the same time remain connected to their core values, and sensitive to those values to which the organisation aspires.

As well as working with different identities, as social auditors we need to be 'multi-lingual'. Our work places us among different people of different cultures, with different needs and different issues. We must listen to them all, from villages in Indonesia to indigenous communities in remote Australia, and from NGO offices to the boardrooms of corporate Australia. While skilled interpreters assist us where necessary, we need to communicate with people from all walks of life. We also need to constantly remind ourselves of the ethical, cultural and social complexities of this work. After all, we 'extract' data from, at times, vulnerable informants in the hope that corporate players will improve their performance, and respond to their concerns. But, in the end, while we have influence, we have no control over corporate strategy.

We take inspiration from the work of Flyvbjerg (2001) in his empowering book *Making Social Science Matter: Why Social Inquiry Fails and How it Can Succeed Again*. Flyvbjerg argues that the whole point of social research should be to enter into dialogue with individuals, organisations and societies to assist them to reflect on their values. Flyvbjerg suggests that social science research should not just clarify, but also intervene by generating new perspectives, contributing ideas to a broader social dialogue about what is going on and what could be done differently. He also acknowledges that any research, whether positioned as value-free and objective, or subjective, can only ever offer a partial view. As social auditors we have embraced this challenge and work to ensure that social audits, particularly the social science aspects, 'matter'.

This discussion has in no way attempted to present a comprehensive review of social auditing; rather, it provides an overview of recent developments, as perceived by the

authors. It also provides a 'practitioner perspective' in the spirit of open dialogue and debate about the challenges of this work. We believe social discipline experts who are competent with social science research methodologies have a valuable contribution to make to the auditing arena. Social auditors from the social sciences have a legitimate place in the 'audit family'. This by no means excludes accountants and other discipline experts from environmental, safety and/or quality perspectives. Rather, we emphasise the value that social science adds to the social auditing process, and the benefits of encouraging and accepting those with social research expertise into the audit 'family'.

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